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3 Keys for Valuing Software License Disputes

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Licensees have many reasons that they may have to value a potential software dispute, including but not limited to situations where a publisher has filed a lawsuit, a publisher has otherwise asserted a claim, and the licensee has a business need to evaluate potential liability associated with software licenses. When a need arises, companies must carefully evaluate their license position and the potential costs associated with any deficiencies. Consider these three questions to help guide that evaluation.

1. When does a licensee need to value a dispute? Obviously, when a software publisher has commenced litigation and when the licensee is considering litigation against a publisher, the licensee must value the potential claims. In some instances, licensees need to value a potential dispute prior to litigation when they receive notice from a software publisher that there is a problem. The publisher could communicate the issue



a number of ways—via letter, an auditor, a demand from the sales team, or all of the above.

In that case, licensees should know the value of the software at issue before determining their strategy. Sometimes, licensees spend significant time arguing about the contractual or

factual issues in the dispute that are relatively low in value. A critical examination of the potential financial exposure can help focus the issues on only the most important ones.

Other licensees have initiatives to internally evaluate their license positions. It is frequently the case that

licensees have too many software titles installed to focus on all titles at once. One way to identify the software publisher with the largest risk is to estimate the licensing cost for each publisher and focus on the top five publishers to whom the licensee has paid the most over the course of the last calendar year.

While this method is not a perfect method for identifying all of the risky publishers, it can help identify a good place to start.

Finally, some licensees suspect that they have a compliance issue with a particular software product, and they are not sure how to remedy the issue. So that the licensee can budget for the expenses associated with purchasing new licenses or reconfiguring its environment, these licensees need to be in a position to calculate the potential damages.

2. What does a licensee need to make a valuation? Licensees must have several items to being a valuation of a software licensing issue. Primarily, the licensee needs the agreement or agreements between it and the publisher, including any amendments or addenda. It also needs any other ordering documents, entitlement information, and license documentation. White papers or other publications from the publisher are helpful in some instances, but not binding on the parties. Licensees should use these publications with caution.

Once the licensee has gathered the license and other entitlement documents, it must have a way to identify

what is installed, what kind of hardware is at issue, and how the product is being used. Ultimately, the licensee will need to have a way to evaluate whether it has sufficient licenses for each of its use cases.


3. What calculations should be used? In a dispute with a publisher, it is helpful to calculate the potential exposure using the same formula the publisher would use. For instance, if a publisher charges list price instead of discounted prices in a dispute, a licensee could significantly undervalue the potential exposure by using discounted pricing in its calculations. If a publisher requires licensees to pay two years of back maintenance or support after an audit, the customer needs to ensure that it has included maintenance and support in its calculations.

The Copyright Act allows a copyright holder to recover either statutory or actual damages, at the copyright holder's election. Actual damages are the license fees the licensee should have paid for the products. Statutory damages are at the judge's election and range from \$750 to \$30,000 for non-willful infringement and from \$750 to \$150,000 for proven willful infringement.

If there is not yet a dispute, a good way to value a potential license claim is to evaluate a publisher's potential arguments (e.g., not enough licenses, wrong license for the current use, virtualization not allowed, etc.) and then determine the cost of the licenses associated with each of the publisher's potential claims.

To understand how this calculation could be helpful, please consider this hypothetical proactive evaluation: A licensee is considering acquiring another company that owns software licenses. The licensee wants to have the ability to use the licenses after the transaction closes. The licensee will need to see whether each license allows for transfer. Many licenses allow transfers with certain conditions, like acceptance of the license terms or payment of a transfer fee. Other licenses do not allow transfers at all. Some licenses do not clearly address the ability to transfer.

If the license is unclear, and the licensee elects to proceed with the transfer, the licensee will need to calculate the potential exposure if the publisher or a court determines that the licenses were not transferable.

Although it is not always a simple matter to calculate the potential or actual exposure in a software dispute, it is a worthwhile use of a licensee's time. Knowing the value of the potential claim is a critical component of the analysis that will help the licensee make educated, strategic decisions. 



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